2004-2005 CAPITAL BUDGET

2005-2009 CAPITAL IMPROVEMENT PROGRAM

APPENDICES

City Council Agenda: 3/23/04

Item: 10.1



Memorandum

TO: City Council

FROM: Mayor Ron Gonzales

SUBJECT: March Budget Message

For fiscal year 2004-2005

DATE: March 17, 2004

Approved

Date:

3/17/04

INTRODUCTION

Our projected deficit created by the state and nation's prolonged economic downturn seriously threatens the City's ability to provide basic public services, jeopardizes our major initiatives, and limits our ability to stimulate the local economy. Although the situation is very serious, I am confident that we will rise to the challenge with the leadership of the City Council, the support of our employees, and the participation from our community to find solutions.

Preliminary forecasts indicate that the San José General Fund, which supports essential public services including police, fire, parks, and libraries may face a \$76 million shortfall next year due to the prolonged Silicon Valley recession. Our Redevelopment Agency has also experienced a decline in revenue projections in the current fiscal year. The state budget proposed by the Governor could increase the City's projected deficit next year and drastically change the Redevelopment Agency's fiscal outlook, impacting our affordable housing programs, Strong Neighborhood Initiative, and other programs that support neighborhoods, San José businesses and our local economy.

During the special budget study session held in January, the Council heard from the City Manager and the Acting Redevelopment Agency Executive Director to review our General Fund budget deficit projections for FY 2004 2005 and the Redevelopment Agency Capital Improvement Plan. On February 17, the Council adopted my recommendations for moving quickly to implement a budget strategy to make decisions now, not later, to close the projected deficit in the General Fund. We are also scheduled on this same agenda to review the City Manager's recommendations for 100 vacant positions to be cut immediately and shortly will review his recommendations for other early reduction proposals.

The Council as the Redevelopment Agency Board also approved my recommendations to delay action on the proposed CIP until the County Assessor has provided information on this year's assessment rolls and to increase our focus on tax increment generating investments. Together these steps will help ensure that we can continue to have resources available to support strong neighborhoods, affordable housing, and economic development.

BACKGROUND

In accordance with Section 1204 of the San José City Charter, I present my FY 2004-05 Operating Budget Message for consideration by the City Council and the public. The Mayor's March Budget Message is based on several sources. These include my recent State of the City address and previous addresses; budget messages and commitments from the past five years; input from the community and Councilmembers; and the budget strategies approved by Council in February.

This memorandum is designed to give the Manager and Executive Director specific directions to prepare proposals for the Council's budget deliberations in May. The numbers and information in this document should be considered preliminary. More accurate and current information will be included in proposed budgets submitted by Council Appointees. Further Council discussion and additional public hearings will take place before the final budget is presented for adoption in June.

This is the fourth year in a row in which the City is receiving less revenue than in the previous year. In prior recessions including those in the early and mid-1990s we saw the reduction in the growth of revenues, not the actual reduction in revenue collection. The severe recession in Silicon Valley and California underscores the importance of our conservative budgeting over the past several years. We have been smart with taxpayer dollars, making good investments and good decisions to set aside reserves and hold the line on costs. This Council also has been very prudent regarding any expansion of services during better economic times.

The growth in personnel expenses that we face is not entirely driven by projected salary increases or higher employment numbers. Increases include \$30 Million (\$22 million of which is in the General Fund) in higher retirement costs that are mainly the result of lower than expected performance of retirement funds and higher salary growth. The actuary for the Police and Fire Retirement Board is predicting another \$25 million increase in retirement costs in 2006-2007. This is coupled with a \$10 million in increases in benefit costs primarily from health care expected next year.

In these challenging economic times, City Hall must continue to do more with less. As we reduce costs and maintain services, we also must focus on our highest priorities, especially in this time of extremely limited resources. Governing means choosing – and we will have to make some extremely tough choices this year.

Complicating our budget decisions is the looming uncertainty of the state budget crisis and its potential negative impacts on communities throughout California. Until the Legislature and Governor approve the state budget later this year, it is impossible to determine how much of an impact we will feel as a result of Sacramento's decisions. We should anticipate, however, that

the state would again shift a large share of its budget crisis to cities and counties, a deplorable decades old pattern.

Finally, it is necessary for the Mayor and City Council to lead by example. I again ask each Councilmember for recommendations on spending reductions, current-year savings proposals, and other ideas to help reduce the deficit, both from our individual office budgets and from City operations in general. We must show the way and stand with our City staff as we meet this challenge together. Although Mayor and Council office budgets are small compared to the overall General Fund, our cooperation to reduce expenditures can add up enough to save a vital project or an employee's job.

RECOMMENDATION

With this March budget message, I recommend continuing our conservative fiscal strategy that has been successful over the past several years so that we can continue to provide vital services to our community, build strong neighborhoods, balance our budget, stimulate our economy, and to the extent possible, prevent the layoffs of our dedicated employees who diligently serve the people of San José.

I recommend that the City Manager and Executive Director be directed to submit balanced budgets to the City Council guided by the policy direction outlined in this document. They should focus on services and projects that can be reduced or eliminated using a framework of priorities and demand for services. Proposals for budget reductions should be developed with a level of analysis that includes detailed data, justification, and outcomes for Council consideration.

I recommend that the City Council and Redevelopment Agency Board approve the direction to Council Appointees contained in this memorandum in connection with the City Manager's Budget Request for purposes of developing proposed budgets for fiscal year 2004-05.

I further recommend that we approve the City Manager's Budget request consistent with the February Budget direction with the following amendments within the March Budget Message.

General Direction

As in the past, all proposals for either budget reductions or augmentations should be measured against the following criteria:

- Impact on essential public services
- Adherence to Council-approved priorities
- Relative importance to operational efficiency
- Effect on fiscal integrity and flexibility
- Economic impact and jobs

Because of the extraordinary challenge we face, I reemphasize the following general principles approved by Council in past budget actions as we consider our direction to staff for preparing budgets for both the current and next fiscal year:

- 1. We must focus on protecting our vital core city services for both the short- and long-term.
- 2. We must explore new revenue sources.
- 3. We must use our resources strategically to stimulate our local economy and job creation.
- 4. We must not enter into new commitments that we cannot fund.
- 5. We must continue to preserve some portion of our reserves for future projected deficits.
- 6. We should continue to reduce vacant positions, redeploy staff, and as much as possible try to save currently filled positions as a response to our current budget deficit.
- 7. We must continue to streamline, innovate, and simplify our operations so that we can deliver services at a higher quality level, with better flexibility, at a lower cost.
- 8. We must be open to alternative ways to deliver services and reduce costs through appropriate community partnerships and public-private partnerships.
- 9. We must work together with our employee bargaining units to find ways to reduce costs that will limit the number of employee layoffs.
- 10. We must continue to move in the general direction of setting fees and charges that recover costs of service, but we also must include fee structures that charge higher fees to non San José residents to the extent legally possible.
- 11. Budget reductions applied to City departments should be applied at generally the same level to our partner community-based organizations that receive General Fund support, with the goal of minimizing the impact on direct services to our residents and businesses.

12. The City Manager shall:

- a) Develop a proposed budget that is balanced based upon our current revenue expectations and expenditure reductions, assuming no impacts from the state budget.
- b) Not bring forward any reduction proposals that were explicitly rejected by the City Council last year.
- c) Develop a prioritized plan of specific budget reductions that should be implemented if and when any state budget impacts are certain. Regardless of the magnitude or

timing of potential state impacts, we can then take steps immediately to further reduce our budget as needed.

- d) Reserve funds in the May 1 budget proposal that are adequate to fund each Appointee's office and the Mayor/City Council Offices, with an across-the-board reduction equal to the average reduction proposed for non-public safety departments.
- e) Maximize reductions to ongoing programs to help solve future deficits to the fullest extent possible.
- f) Recommend fee increases rather than program reductions where raising fees is determined to be legally possible without adverse program impacts and maximum efficiencies can be certified.
- g) Without delay, coordinate and aggressively pursue opportunities for the City (and community-based organizations with technical assistance from the City) to apply for grants to support programs in priority areas.
- h) Avoid budget cuts that would mean we lose grants or cannot leverage other resources.
- Include the Council Appointees budget reduction proposals under the Strategic Support CSA for the May 1st budget release.

ASSET ALLOCATION STRATEGIES

I continue to focus on six core priorities for San José that I have outlined in State of the City addresses and that have been endorsed by Council actions and the reorganization of our Council committee structure:

- 1. Building Stronger Neighborhoods
- 2. Remaining the Safest Big City in America
- 3. Helping All Children Achieve
- 4. Building Better Transportation
- 5. Driving a Strong Economy
- 6. Making Government Work Better

As we move forward with the budget process we must always stay focused on the outcomes that are most important for our residents and businesses. I recommend that the City Manager and Redevelopment Agency Executive Director be directed to review all programs including base budget, investment, and reduction proposals to ensure that we are making real progress to achieve our six main priorities.

Finally, all proposals for reductions must specifically quantify the level of service to be provided, the impact on position reductions, and the potential cost savings.

1. Building Stronger Neighborhoods

We must continue to view our role through the eyes of our residents who see the direct impact of services from their driveways. Over the last several years we have made real progress in this direction as the City and residents have worked together to invest time, effort, and resources to improve neighborhoods and make San José a place we are all proud to call home. To move forward with this effort, Appointees are directed to implement the following recommendations:

Abandoned Vehicle Spotter Program Citywide: Abandoned vehicles are neighborhood eyesores. I direct the City Manager to expand the "Vehicle Spotter Program" citywide.

- a. Anti Graffiti and Anti Litter: Successful programs that make our community stronger, cleaner, and safer should only be reduced in terms of response time, not volume or quality of service delivery.
- b. Senior Programs: Currently 22% of San Joseans are 50 years and older and in the next fifteen years the bay area's senior population (65 and over) will increase by 84%. In order to be careful and thoughtful of the future needs of this growing community we should make a strong effort to maintain basic senior services.

2. Safest Big City in America

San José is the safest big city in America, and San José residents feel safe in their neighborhoods. Additionally, our city now claims the title as one of the most prepared cities for disasters. Regardless of our budget situation, the safety of our residents and businesses must remain our first priority. Appointees are directed to implement the following recommendations:

- a. Mutual Aid: Direct the Manager to charge fees to other jurisdictions and entities to the extent legally possible for non-emergency responses to mutual aid in order to recover extra costs incurred by our public safety departments. These charges should encompass services that we provide such as security for dignitary visits in other cities and crowd control assistance during demonstrations.
- b. Bureau of Fire Prevention: Direct the Manager to bring forward fee increases to make this a cost-recovery program. Further direct the San José Fire Department to apply reinspection fees consistently and impose stiff penalties for facilities that continue to have chronic fire safety problems.
- c. Public Safety Grant Writing: The City Manager shall evaluate whether one department can handle all grant administration for Police, Fire, and Emergency Services to streamline efforts and reduce costs for all units.
- d. **Research and Development:** The City Manager shall evaluate whether the City Manager's Office Legislative staff could absorb the legislative workload of the Police

Department's Research and Development Division to reduce costs and improve effectiveness.

- e. Patrol Staff Reductions The most essential core service of the Police Department occurs within the patrol division. I recommend that reductions to this unit be implemented only as a last resort to ensure that these essential services continue at current levels as much as possible.
- f. Cellular 911 Calls: Develop a strategy to ensure San José is ready to handle the California Highway Patrol transfer of responsibility for cellular 911 calls to local agencies. Direct the City Manager to research other cities' implementation strategies and evaluate opportunities to streamline dispatch and partner with other agencies.
- g. Fire and Police Academies: Direct the Manager to review ways to partner with other Santa Clara County jurisdictions to provide police and fire academies and reduce costs.
- h. Metro cross training: Direct the Manager to evaluate opportunities to provide cross-training to patrol officers to handle the specialized incidents that the City's METRO Unit provides.
- i. Police Department Permit Unit: Direct the Manager to evaluate shifting the permitting responsibilities of the Police Department Permits Unit to the City's Planning, Building and Code Enforcement Department where appropriate and to the Office of Cultural Affairs to handle festival and other event permitting. While this may or may not save money, it would increase efficiencies and make it easier for our customers.
- j. High Tech Investigations: The High Tech Investigations Unit, which investigates crimes involving the use of a computer, has a \$1000 threshold for triggering investigations. This threshold should be raised to use Police resources more strategically on costly crimes.
- k. IPA Annual Report: The Independent Police Auditor is directed to produce its mid-year and annual reports at a quality level that is less expensive to print and distribute, similar to reports prepared by City Manager's Budget Office and the City Auditor, but still provides the public with concise and useful information.
- Patrol Staffing Software: Direct the Police Department to utilize its new patrol staffing software to develop alternatives for officer deployment using different scenarios and factors such as shift-starting times and levels of free patrol time to achieve the most efficient use of patrol resources.
- m. Fire Alternative Apparatus: Direct the Manager to explore all strategies related to where and what equipment is deployed to reduce costs.

n. Hazard Incident Team: Direct the Administration to evaluate whether the Fire Department should continue the practice of dedicating a centralized Hazardous Incident Team that responds almost exclusively to hazardous materials incidents.

3. Helping All Children Achieve

Even in difficult budget times we must strive to strengthen the role of city government for improving student achievement so that every child in San José can have the opportunity to succeed. Appointees are directed to implement the following recommendations:

- a. Increase high school graduation rates: Working with the Mayor's office, direct the City Manager to develop a strategy to better focus our resources and develop community partnerships to identify solutions that keep students learning in school. We must work with existing partners and locate new partners to help students achieve.
- b. Literacy Programs: As the merger between the Office of Early Care and Education and the Library Department moves forward, the program should retain its focus on Smart Start while exploring options for partnering successfully with businesses and obtaining grant funding.
- c. Schools/City Collaborative: Direct the City Manager to explore alternate ways to fund the Schools/City Collaborative staff position or provide staffing from merged resources.
- d. Library Service "no holds" on media: Recommend that the City Manager evaluate making changes to media distribution such as DVD's and VHS tapes to reduce costs to the City.
- e. Reduction of all Branch Libraries: If the City Manager brings forward a proposal to reduce branch library operations to only five days per week, he is directed to include a requirement that branches be open on Saturdays and that closure days be rotated among branches. Also, direct the City Manager to evaluate the feasibility of ensuring that if a neighborhood library were closed for the day, the closest library near the closed library would be open. Any proposal to discontinue Sunday hours must describe customer counts for Sunday hours compared to weekday hours.

4. Building Better Transportation

Creating a transportation system that provides safe and efficient access for residents and businesses, enhances our neighborhood streets, and preserves our street infrastructure in the face of a serious deficit is a challenge. We must continue to find creative solutions to provide transportation infrastructure and services despite these difficult budget times. Appointees are directed to implement the following recommendations:

a. New Streetlight Technology to Save General Fund dollars: Direct the City Manager to evaluate implementing new energy efficient streetlight technology that can reduce

General Fund costs, and evaluate contracting alternatives for streetlight installation and maintenance that could increase savings.

- b. Other Revenue Enhancing Technologies: Direct the City Manager to evaluate and report back to the City Council other revenue enhancing initiatives, such as installing new parking meters that provide new data technology to monitor parking activities and potentially increase revenues.
- c. **Airport Shuttle:** Direct the City Manager to evaluate the level of service for the Airport Shuttle and evaluate if continued funding for repairs is needed.
- d. Citation Fees: Recommend that the City Manager provide a comparison of other city citation fees including cities within the County, and make recommendations for adjusting San José fees based on the findings.

5. Driving a Strong Economy

We continue to make San José the best place in America to do business, work, and live. San José is a statewide leader for creating housing affordable for all income levels. Despite the current recession, we have a remarkably broad and diverse industrial base. Our downtown and neighborhoods offer a full range of exciting, entertainment, cultural, and retail opportunities.

Through prudent planning and a strong and effective economic development effort, the City can have a major impact on economic recovery that will address our budgetary challenges. Appointees are directed to implement the following recommendations:

- a. Convention Center Expansion: Direct the Executive Director to return to the City Council with a funding strategy to nearly double the size of our Convention Center by building a temporary structure as soon as possible.
- b. Downtown Housing Goal: Direct the Executive Director to return to the City Council with a strategy to create 3,000 more downtown homes over the next five years.
- c. Expand the Museum of Art and Provide More Retail Space Downtown: Direct the City Manager, working with the Mayor's office, to return to the City Council with a strategy to help expand the San José Museum of Art by using the former main library. The Executive Director, working with the Office of Economic Development, is directed to develop a plan to attract new retailers to the center of downtown by using existing museum space for retail opportunities.
- d. Commitment to Affordable Housing: Direct the City Manager to continue the City's efforts to reach with our goal of 6,000 new affordable homes over the next five years.

e. Building Fee Program: Before adding resources to raise performance targets for permit services to the industry-preferred levels, the City Manager is directed to report back to the City Council with an analysis of industry-preferred levels and the costs and methods for achieving them.

6. Making Government Work Better

We must continue to make San José a user-friendly city that delivers high quality services to residents and businesses by striving for maximum efficiencies. Appointees are directed to implement the following recommendations:

a. Vehicle Fleet Issues:

- Review with the Council the City Auditor's recommendation to use mileage reimbursements to employees instead of providing City vehicles when it can reduce costs to the City.
- 2) Ensure that unmarked police vehicles, excluding vehicles for covert operations, are replaced using the same schedule as regular fleet vehicles.
- 3) Rotate all newer marked sedans from special non-patrol units, including the Airport, to the general patrol fleet.
- 4) Start assigning all new marked sedans to the general patrol fleet.
- 5) We should continue to seek all opportunities to reduce costs and achieve greater efficiencies in fleet management.
- 6) Direct the City Manager, working with the City Auditor, to report back to the City Council during the budget process with a total list of the recommended vehicles for elimination and the associated cost savings.
- b. Cashiering for "Recycle Plus": We should be consolidating cashier services whenever possible, especially when it allows training to occur before our move to the New Civic Center and allows General Fund savings.
- c. Fire Inspection Billing Consolidation: Direct the City Manager to evaluate streamlining and cost savings opportunities through consolidation of fire inspection billing from the Fire Department to Finance/Treasury, as well as other opportunities to reduce costs.
- d. **Business Tax Amnesty**: Direct the City Manager to implement a Business Tax Amnesty Program during next fiscal year.

UPCOMING BUDGET PROCESS

We have a very difficult challenge facing us as we develop this year's budget in the face of reduced revenues and continuing economic uncertainties. Our principal goal will be to maintain our core services, avoid layoffs, and stimulate our local economy as much as possible.

I again call on my colleagues to actively seek proposals and ideas that will help us close our budget deficit by reducing costs, eliminating or deferring projects, or obtaining outside resources from grants and partners. The Manager is directed to provide to Councilmembers a schedule of when ideas would need to be received to accurately estimate the potential savings that would be achieved and the impact on services and the community.

CONCLUSION

The overall goal of this message is to direct Council Appointees to develop their budget recommendations that reflect the policy priorities of the Mayor and Council. I have outlined a strategy that will balance our ability to continue providing basic services to our community, help our economy, build strong neighborhoods, stabilize our budget, and as much as possible, prevent the layoffs of the dedicated employees who serve the people of San José. I urge approval by my colleagues.

COORDINATION

This memo has been coordinated with the City Manager, the Redevelopment Agency Executive Director, and the City Attorney.

Council Agenda: June 15, 2004

Item: 10.3



Memorandum

TO: City Council

FROM: Ron Gonzales, Mayor

SUBJECT: Mayor's June Budget Message

For fiscal year 2004-2005

DATE: June 10, 2004

Approved:

Date:

6/10/04

INTRODUCTION

In accordance with Section 1204 of the San José City Charter, I present my fiscal year 2004-2005 Budget Message for consideration by the City Council and the public.

Because of the protracted deep recession in San José and Silicon Valley, we face the very difficult task of overcoming a budget gap of \$69.8 million in the City's General Fund, which supports essential public services including police, fire, parks, and libraries. State budget decisions by the Governor and the Legislature will likely increase our General Fund shortfall by another \$12 to \$15 million based on the projections in the Governor's May revised budget proposal. Clearly, this is our most challenging year for budget decisions that we have ever faced.

In addition, the Governor's proposal to take even more local redevelopment funds away from cities would severely limit our ability to create jobs, build affordable housing, strengthen our neighborhoods, and assist the state's economic recovery. Further, we face more uncertainty from current labor contract negotiations with the City's bargaining units. All of these potential actions may further worsen the deficit we must close this year.

This is the fourth year in a row in which the City is receiving less revenue than in the previous year. In prior recessions, including those in the early and mid-1990s, we saw a reduction in the growth of revenues, not the actual reduction in revenues. The severe recession in Silicon Valley and California underscores the importance of our conservative budgeting over the past several years. We have been smart with taxpayer dollars, making good investments and good decisions to set aside reserves, streamlining our workforce, and holding the line on costs. This Council also has been very prudent regarding any expansion of services during better economic times.

Nonetheless, personnel expenses will grow, but not because of projected increased salaries or employment. Cost increases include \$30 million in higher retirement costs that are mainly the result of lower than expected performance of retirement funds and higher salary growth in past years (\$22 million in the General Fund). The actuary for the Police and Fire Retirement Board is projecting another \$25 million increase in retirement costs in 2006-2007. This is coupled with

years (\$22 million in the General Fund). The actuary for the Police and Fire Retirement Board is projecting another \$25 million increase in retirement costs in 2006-2007. This is coupled with \$10 million in increases in benefit costs expected next year, primarily from higher health insurance premiums.

The projected deficit clearly threatens the City's ability to continue to deliver the level of services that our residents have come to expect and deserve. It jeopardizes our major initiatives and limits our ability to stimulate the local economy. This budget message, however, outlines recommended priorities for us to keep making smart, strategic financial decisions during an extremely challenging economic period to protect vital City services, manage all our resources more effectively and efficiently, and protect the quality of life of residents in our neighborhoods.

On February 17, 2004 the Council adopted my recommendations for moving quickly to implement a budget strategy to make decisions now, not later, to close the projected deficit in the General Fund. This spring we also approved the City Manager's recommendations to eliminate 100 vacant positions and his early budget reduction proposals to save additional general fund dollars sooner. This action reduced our projected deficit by \$5 million.

The Council as the Redevelopment Agency Board also approved my recommendations to delay action on the proposed Redevelopment Capital Improvement Program until the County Assessor provides information on this year's assessment rolls, and to increase our focus on investments that will generate tax increment revenues to support redevelopment programs. Together these steps will help ensure that we can continue to have resources available to support strong neighborhoods, affordable housing, and economic development.

Pursuant to this previous action, I recommend that we refer the following Budget Documents to the Redevelopment Agency Capital Budget process scheduled to begin in August:

BD# Title

- 19 Attractive Neighborhood Blackford SNI #5 Street Trees
- 20 Attractive Neighborhood- Blackford SNI #4 Enhanced Crosswalks
- 24 Blackford Teen Center
- 59 Service Yards Capital Program RFP for Sale of Main Corporation Yard (Direct Manager to develop a strategy and timeline for vacation of property to be included in RFP)

In March, the City Council approved the Mayor's March Budget Message, which provided additional direction to the City Manager and the Interim Executive Director to include in their proposed operating and capital budgets. These actions included creative alternatives to reducing the current funding gap through exploring new fees, technologies, and further streamlining the way we provide services to our residents and customers.

Finally, it is necessary for the Mayor and City Council to lead by example. We must show the way and stand with our City staff as we meet this challenge together. Although Mayor and Council office budgets are small compared to the overall General Fund, our cooperation to reduce expenditures can add up enough to save a vital project or an employee's job.

RECOMMENDATION

I recommend that the City Council:

- 1. Approve the direction to Council Appointees contained in this memorandum to the extent legally possible for purposes of adopting a final budget for fiscal year 2004-2005.
- 2. Authorize the City Manager and Redevelopment Director to negotiate and execute any specific contracts in this direction.
- Authorize the changes in the following Manager's Budget Addenda to be incorporated in the Adopted Budget, except to the extent any are superseded by the contents of this Budget Message.

MBA

TITLE

- 1 Approval of Proposed Performance Measure in the 04-05 Proposed Operating Budget
- 3 Proposed Operating and Capital Budget Replacement Pages
- 8 Revisions to the Public Safety Capital Program in the 2004-2005 Proposed Capital Budget
- 9 Parking Priorities and Triggers
- 11 Proposed Municipal Water System Rate Increases for 2004-2005
- 14 HP Pavilion at San Jose Capital Budget Recommendations
- 25 General Plan Update (excluding the fee change for the General Plan Update)
- 29 Amendments to the 2004-2005 Proposed Police Dept Fees
- 43 Voluntary Furlough & Special Reduced Work Week Program
- 47 Healthy Neighborhoods Venture Fund Advisory Committee Rec for Use of 2004-2005 Funds
- 48 Establish Public Works Program Support Fund
- 49 Measure D Candidate Project Recommendations
- 50 MBA Response: Terminal Space Restrictions
- 54 Recommended Amendments to the 2004-2005 Proposed Operating & Capital Budgets

BACKGROUND

Despite the severe financial challenges we currently face, this budget message outlines approaches to keep our commitments to maintain and improve the quality of life for residents in our neighborhoods and regain the economic prosperity that our city and region have enjoyed.

In these challenging economic times, however, City Hall will have to continue to do more with less. As we reduce costs and maintain services, we also must focus on our highest priorities. Especially in this time of extremely limited resources, governing means choosing – and we have to make some extremely tough choices this year.

Economic development is an example of one of our highest priorities, because private industry is the fundamental generator of jobs in Silicon Valley, and job creation will be essential for economic recovery. San Jose must do all that we can to make a positive impact on the local economy through our public projects, services, and activities. It is our responsibility to help make it easier for business to thrive, grow, and create prosperity for our residents. We must cut red tape and streamline where possible.

Our accomplishments in this area over the past year are excellent, beginning with our outreach to the business community last August that quickly led to new policies that have directly changed the way we do business with our customers. In December, we approved the San José Economic Strategy to create new opportunities to strengthen our economy over the next three to five years. We opened the One Start Permit Center in January, and the first applicant to take advantage was the CIM group for its mixed-use project in Downtown.

These actions have contributed to more businesses choosing to move to or expand in San Jose. Examples include iS³, which moved to downtown from Cupertino to join our hub of high tech and software companies; Adobe Systems opened its third downtown office tower, contributing to our skyline and our job base; Lowe's Home Improvement Warehouse will build in South San José; and eBay and BEA both will expand in North San José and Cisco Systems is adding 1000 new jobs in San José.

New retail and restaurants continue to locate in San José, demonstrating the importance of continuing to attract these businesses. The Eastridge and Oakridge expansions and the opening of Santana Row together bring nearly a billion dollars of private investment to the San José retail sector. Over the last year, the total amount of space for new retailers and restaurants opening or committed to coming to the downtown is greater than the size of the entire Pruneyard shopping center.

Downtown retail and restaurant achievements include the start of construction on the CIM Group "Heart of the City" project at 2nd and Santa Clara streets; grand openings of PF Chang's, McCormick & Schmick's, Flames, Artists and Craftsman Art Supply store, and shortly the openings of Black Sea Gallery, the Montgomery Hotel and the Paragon Restaurant. In addition, the California Theatre will open this fall, which along with the expansion of the Camera 12 Cineplex and the continuing success of the Improv in the Jose Theater are adding to the excitement of Downtown entertainment.

We are also well on our way in creating opportunities for emerging markets. The San Jose Bioscience Incubator was approved by the City Council last year and we celebrated its grand opening this month. The 36,500-square-foot facility will be home for 15 to 20 startup companies involved in the convergence of the region's fast growing industries: biotechnology and information technology.

San Jose and Silicon Valley continue to be the world's leading home for entrepreneurs. One-third of all venture capital invested in the United States supports startups and young companies in our region to support innovative enterprise in the San Jose area. These are innovative investments in software, bioscience, and nanotechnology industries that will be driving our economy and creating jobs and opportunities in the future.

In my State of the City address, I proposed steps to help San José attract more visitors to our downtown. These recommendations included erecting a temporary structure to expand the convention center and creating a partnership with the San José Museum of Art to increase downtown retail opportunities and the expand the museum's exhibit space. These initiatives will bring more visitors to our downtown, strengthen our convention marketability, and strengthen our economic base.

We have seen improvement in our employment numbers - the unemployment rate has fallen from nearly 10 percent to 7.3 percent. Companies are beginning to hire and people are getting back to work. These are all good signs that the economy is beginning to turnaround, but they will not improve our immediate budget outlook for at least another year. For this reason, this budget message continues our focus on strategic investments that will help secure our city's future, even in difficult and uncertain economic times. We will continue our investments to help all children achieve and keep San José the safest big city in America. We will continue to build strong neighborhoods and improve our transportation system. We will continue to help drive a strong economy and make government work for all the people of San Jose.

This budget message reflects many of the ideas and suggestions provided by Councilmembers over the past few months during the budget study sessions, proposals from the Administration and the Redevelopment Agency, specific proposals submitted by Councilmembers, and ideas from the public. It reflects the serious attention that the City Council and City staff consistently give to serving the residents of our city.

Protecting Quality of Life for Residents, Businesses and Employees

In light of the serious fiscal challenges that every city, county, and school district in California are facing this year, which are aggravated by the catastrophic state budget crisis that takes resources away from local government, it is important to note San Jose's excellent achievements to protect vital services for our community in this proposed budget. Because of our conservative financial management, we are able to present a budget that has many positive elements despite severe challenges. Among these highlights are:

- Police, fire, and emergency medical services affecting the safety of our residents are maintained to help us remain the safest big city in America.
- Neighborhoods will continue to be a priority for San Jose through the Strong Neighborhood Initiative. We will continue to have San Jose neighborhoods drive investments through the SNI and the unique partnership with our residents.

- Graffiti will continue to be eliminated within 48 hours, and graffiti criminals will continue to be apprehended and prosecuted.
- Children in San Jose will continue to have access to quality, affordable health care with our contribution to the Children's Health Initiative.
- We will help all San Jose children achieve by creating opportunities for educational success for our children. Thirteen Smart Start centers are now open, and seven more are planned to be open to reach our goal of 20 new centers by 2005.
- We have created over 1,300 new childcare spaces for San Jose children, and we are on track to add 750 more by June of this year.
- We will continue to assist San Jose teachers to purchase homes in San Jose, strengthening our goal of making San Jose as the most Teacher Friendly City in the nation. Since the program began in 1999, we have helped over 400 teachers buy homes in San Jose near the schools where they teach.
- Neighborhood libraries will continue to remain open six days a week, providing families convenient access to learning, reading, and discovery.
- Improvements to parks and libraries, fire stations, public safety communications facility and a police substation will provide significant benefits to our neighborhoods and create jobs, made possible by voter approved bonds.
- We are moving forward with improvements to Mineta San Jose Airport, which will help stimulate our economy while creating an airport that will keep San Jose economically competitive.
- The New Civic Center will open next year, which will provide long-term cost savings, improve public service, reshape the way the public and the City work together, bring new workers to downtown and create a new landmark building for our community.

Ending Fund Balance

Among the successful strategies we have used to help secure the City's financial stability in recent years has been to first use any surplus funds at the end of each fiscal year to establish reserves to cover any projected shortfall in the following year based on the Five-Year Forecast.

In this document, I recommend continuing the Council policy to encumber any additional Ending Fund Balance (EFB) beyond those funds in the proposed budget to help balance the budget for the following fiscal year. Our first priority must continue to be reserving adequate funds from the EFB to address projected deficits to avoid drastic, sudden and immediate cuts. Projections for FY 2005-2006 currently expect our deficit shortfall to continue. We must continue to prepare now to secure the City's financial stability for the future.

If the EFB is larger than what is necessary to fund next year's projected deficit then additional funds shall be designated to a unfunded capital projects reserve. During the past five years, this Council made tremendous strides toward catching up on a huge capital backlog. Now that resources are declining, we must not allow the City to fall that far behind again. Creating a capital backlog reserve will provided much needed resources to try and keep up with growing infrastructure needs and provide our residents with the quality facilities they expect and deserve. Funds should be set aside annually up to \$5 million. If there are funds beyond \$5 million and the Manager is unable to identify additional capital backlog projects then any additional funds should be moved to the Economic Uncertainty Reserve Fund.

State Budget Uncertainties

Until the Legislature and the Governor approve a state budget, we face major uncertainties for our own budgets that will seriously affect both the General Fund and redevelopment programs. We know the state will continue to take funds from California local governments to help meet the state's budget crisis, but we don't know yet how much it will affect San Jose. Neither do we know what will happen when voters consider constitutional amendments on the ballot for state and local fiscal relationships. For this reason, we must continue our strict discipline on spending, regardless of the state's budget decisions.

INVESTMENT AND REDUCTION STRATEGIES

I continue to focus on six core priorities for San Jose that I have outlined in State of the City addresses and previous budget messages that have been endorsed by Council actions and the reorganization of our Council committee structure:

- 1. Building Strong Neighborhoods
- 2. Remaining the Safest Big City in America
- 3. Helping All Children Achieve
- 4. Building Better Transportation
- 5. Driving a Strong Economy
- 6. Making Government Work Better

As we move forward, we must always stay focused on the outcomes that are most important for our residents and businesses. We have reviewed all programs including proposals for base budget, investments, and reductions to ensure that we are making real progress to achieve these priorities.

The following budget message is divided into nine sections: the first six address these priority areas, and the remaining three address procedural or financial issues. In addition, the Redevelopment Agency has four Core Service Areas. City and Redevelopment services should be considered as integrated and mutually supportive of our overall priorities. This framework emphasizes our desired approach to improve interdepartmental, collaborative, and results-oriented services and continue the goals of our "One Voice" initiative.

Guiding Principles

During this difficult economic period, each budget decision must be measured against several critical factors. Among the principles that I have used to prepare these budget recommendations are:

- Make sure that service reductions result in the least harm to residents and businesses.
- Reduce impacts as much as possible to our employees.
- Help economic recovery and support job creation.
- · Preserve our options for the future as much as possible.
- · Respect community and neighborhood priorities.
- Limit impacts on essential public services
- · Meet legal commitments.
- Encourage and support community partnerships, engagement, and greater self-sufficiency.
- Promote innovation among employees and the community for creative problem solving and identifying new resources.
- Continue the City's high standards of fiscal integrity.
- Leverage resources as much as possible.

1. Building Strong Neighborhoods

We must continue to view the City's role through the eyes of our residents who see the direct impact of services from their doorsteps and driveways. Over the last several years, we have made real progress in this direction as the City and residents have worked together to improve neighborhoods. To move forward with this effort, Council Appointees are directed to implement the following recommendations:

- a. Library Benefit Assessment Reauthorization. The Library Benefit Assessment District is scheduled to expire after 2004. A vital resource approved by voters in 1994 has helped us build and maintain a first-class library system for the people of San José. The Benefit Assessment has generated \$20 million to provide 430 computers, 1.6 million books, and over 240,000 other library materials. The Manager and Attorney are directed to work with the Mayor's Office to bring forward to the City Council a ballot initiative for the November 2004 scheduled election to enable the City to continue to receive these revenues for the Library.
- b. Parks Deferred Capital Maintenance: Direct the Manager to implement an aggressive capital maintenance effort to reduce ongoing operation and maintenance costs (using funds that were set aside to provide an additional 15% of C&C funding to pay for O&M). These funds would be redistributed to each council district per the current distribution formula and be restricted to capital maintenance projects. We should move quickly on improvements, such as updating irrigation systems, replacing water-intensive landscaping with lower water usage plants, and replacing furniture and fixtures that require frequent repairs, to help reduce ongoing O & M costs in our parks.

c. SNI Organization: Because of the importance and visibility of Strong Neighborhoods Initiative projects to the community, we must use effective and efficient methods of organization that include energetic, organized, and committed staff members. We should focus on a "One Voice" approach by using one manager of SNI area teams from the Agency who will report directly to the City Manger's Office, instead of one each from the City and the Agency. Additionally, we should make every effort to flatten this organization to provide the maximum span of control for middle management and provide the most frontline staff to the fullest extent possible to ensure seamless delivery of services and seamless oversight.

Nonetheless, not all SNIs are equally ready to move from planning to implementation. Some SNIs still need more direct effort in capacity building, while others may be ready for priority implementation. The Manager and Director should take into consideration the diversity among various SNIs.

- d. Mize Skate Park: Transfer park trust funds from reserves to begin development and construction of a skate park at Mize Park.
- e. Los Paseos Youth & Family Center: Direct the Manager to rebudget the remaining \$272,235 in GF funding allocated through the Mayor's Budget Message for a Youth & Family Center at Former Fire Station #27 to locate the Youth & Family Center at the Los Paseos Joint-Use Facility. This action would provide for youth services necessary to the South San José community, as identified by youth surveys, focus groups, and the Youth Commission.
- f. Vietnamese Cultural Heritage Garden: Direct the Manager to maintain \$250,000 in citywide funding as a reserve to provide matching grant money to VCHG. The Vietnamese Cultural Heritage Garden has reorganized and resumed its work with the City to construct a garden that will reflect the heritage and contributions of the San Jose Vietnamese community. This reservation of funding will ensure that the project can proceed when it is ready.
- g. Park Maintenance restoration (including restroom opening): Direct the Manager to partially restore the proposed cuts to park maintenance (including restroom opening) with funds from the deferral of the GreenPrint update, Morrill Center FF&E budget, and the Economic Uncertainty Reserve. Parks are vitally important to maintaining the quality of life that our residents enjoy, expect, and deserve. Although \$250,000 has been identified for updating the GreenPrint and related public outreach, this update can wait given the status of implementation of the current GreenPrint. This funding shift would cause the GreenPrint update to be deferred by one year. \$200,000 of one-time money was allocated under the Hammer Administration for the Morrill community facilities project. The need for that project has been met through a different strategy, and therefore these funds are now available to offset the cost of recommended program restorations.

- h. Mount Pleasant School District/Fernish Park Project: Direct the Manager to designate \$400,000 of School Improvement/Sports Field Grant funds within the District 8 C&C fund for the Mount Pleasant School District/Fernish Park Project to provide matching funds to the Mount Pleasant School District.
- i. Tamien Station Skateboard Park Development: Direct the Manager to adjust five-year projections to include \$35,000 in operations and maintenance funding in FY 2006 for the Tamien Skateboard Park. The Tamien Skateboard Park is proposed for the Tamien Specific Plan Area where significant new housing will be added over the next two to three years. It is important that we plan for neighborhood amenities to be developed in conjunction with anticipated housing. The proposed skateboard park is part of a proposed Memorandum of Understanding between the Valley Transportation Authority, Barry Swenson Builder, and the City of San Jose reflected in zoning approval for new housing in the Tamien Station area.
- j. Rename the Montgomery Hill Community Garden project to the Yerba Buena Road/San Felipe Road Improvement: This "renaming" would allow funding for a project consistent with the Montgomery Hill/Evergreen Park Master Plan. The funding will be used on a project that accomplishes elements of the master plan. The project will provide landscaping and public art at the southeast corner of San Felipe Road and Yerba Buena Road, including an appropriate state historic marker regarding the flight of John J. Montgomery. The overall landscaping would be consistent with what exists in Evergreen Park and as delineated in master plan.
- k. City Grant Oversight: Direct the City Auditor to complete an audit of the grant oversight process with PRNS, CDBG, HNVF, CAP, and BEST to develop better efficiencies in a comprehensive program for grants made by the City. The Auditor should also review the feasibility of shifting the responsibility of the separate grant processes under one department, preferably through the City Manager's Office providing for a "one voice" system for grant.
- Non-resident Fee Strategy: Direct the Manager to bring back a detailed strategy on the charging of fees for residents and non-residents before the next budget cycle. This should incorporate all of the City's assets, and waiting lists should provide priority order to residents.
- m. Abandoned Vehicle Spotter Program: Abandoned vehicles are neighborhood eyesores. As I recommended in my State of the City speech, I look forward to the success of the expansion of the "Vehicle Spotter Program" citywide. We should continue to look for innovative programs to engage our volunteers and residents to help us find solutions to neighborhood problems.
- n. Anti Graffiti and Anti Litter Programs: Direct the Manager to restore funding for these successful programs that make our community stronger, cleaner, and safer.

- O. Community Center Restoration: Direct the Manager to continue normal operations of community centers that have the most unduplicated customers, serving our most vulnerable populations, in the areas with the most need for neighborhood services. These centers should include the McKinley Neighborhood Center and The Olinder Neighborhood Center. The Manager should further explore community partnerships for these operations as well as working with the community to identify partners who may be able to restore partial operations at the other closed centers.
- p. Volunteer Opportunities: Direct the Manager to explore the use of volunteers to help maintain our programs in senior and recreation services, park maintenance and neighborhood cleanups.
 - Senior and Recreation Services: Restore senior and recreation services programs to the extent possible through an increased partnership with the City's volunteer programs.
 - Parks Maintenance: Using Adopt-a-Park as a model, direct the Manager to work with neighborhood associations, community groups, and businesses associations to address maintenance and other park needs with volunteers where appropriate.
 - Neighborhood Cleanups: Direct the Manager to explore using neighborhood organizations to conduct neighborhood cleanups instead of City staff. Neighborhood organizations have long conducted successful cleanups, and shifting to a volunteer model can help reduce costs.

2. Safest Big City in America

San Jose is the safest big city in America, San Jose residents feel safe in their neighborhoods, and we are regarded as one of the nation's most prepared cities for disasters. Regardless of our budget situation, the safety of our residents and businesses must remain our first priority. We must continue to support frontline police officers and fire fighters to ensure quick response times and protect residents. Appointees are directed to implement the following recommendations:

a. Public Safety Capital Program Revisions: In March 2002, over 70% of San Jose voters approved a \$159 million bond program to improve response times to emergencies and upgrade our public safety facilities. A component of the bond program was to build four new fire stations and relocate four existing fire stations to place our resources and improve response times strategically across the city. The Manager is directed to move forward with the proposed revisions to the Public Safety Capital Program in the 2004-2005 proposed Capital Budget and 2005-2009 Capital Improvement Program in MBA #8.

In order to ensure response times are improved, the City Manager is further directed to implement a staffing program, that will maintain our commitment to the voters to build the

bond projects within 10 years and staff the new and existing fire stations added by the bond.

b. Emergency Response Fee: Rather than approving the proposed Emergency Response Fee at this time, I recommend that we liquidate \$10 million from the Future Deficit Reserve and the Economic Uncertainty Reserve. I further recommend that the Emergency Response Fee be shifted to become the second item in the Contingency Plan to be enacted if the budget adopted by the state adversely affects our General Fund by more than \$1.5 million. I recommend that we absorb the first \$2 million of state budget impact through additional reductions and savings identified in this memorandum.

If the state budget significantly affects our City budget, failure to enact the Emergency Response Fee would require drastic additional reductions of service that I could not recommend. If the Governor's proposed budget is approved by the Legislature, we can expect to lose more than \$13 million in General Fund revenue. Without the Emergency Response Fee, we would have to make the following list of service reductions that are outlined in the Contingency Plan. This list of reductions would be felt deeply by our community in high priority service areas:

- □ Fire Department Support Services Consolidation
- Public Safety Communications staffing
- Senior Special Events Programs
- Police and Fire Recruit Academies
- Regional Parks Reduced Operations
- □ Safe Schools Campus Initiative Efficiencies
- Police Traffic Enforcement Sworn Staffing
- ☐ Future Teacher Loan program
- □ Anti Graffiti Program
- □ Fire Emergency Response Engine Company
- □ School Crossing Guard 50% reduction
- □ Library Branch Hours Elimination
- Domestic Violence After Care Services
- □ Clean Slate and Striving Toward Achievement
- □ School Crossing Guard elimination
- Police Investigations Sworn Staffing
- Police Special Operations Sworn Staffing
- Mayor, Council and Council Appointees

If the Council chooses to enact the Emergency Response Fee, I recommend we direct the Manager to lower the maximum cap amount per user from \$35,000 to \$20,000 and establish a sunset after two years related to the Governor's proposed cessation of additional shifts of local revenues to the state. The Council would evaluate the sunset and further need for this funding in two years if the Governor's or similar proposals do not take effect.

- c. IPA Annual Report: The Independent Police Auditor is directed to produce its mid-year and annual reports at a quality level that is less expensive to print and distribute, using lower cost paper and black and white reproduction. The office has done a good job reducing costs associated with this report; however, there are less costly alternatives available that will retain communications effectiveness.
- d. BEST Funding: Direct the Director and the Manager to move forward with the FY2004-2005 allocation of \$3.0 million for BEST funding to ensure that the City continues to address youth violence in our neighborhoods through our partnerships with San José schools, neighborhoods, and community and public safety agencies. This allocation should continue to focus on gang intervention and suppression, as outlined in the Mayor's Gang Prevention Task Force Strategic Plan.
- e. Crime Prevention Program: Our efforts to prevent crime are a key reason that we are the Safest Big City in America. In order to remain so I am recommending that we continue to fund Challenges and Choices crime prevention program, Truancy Abatement and Burglary Suppression program, SAVE 1st time offender program, and the Neighborhood Action program and restore 50% of the Neighborhood Watch reduction.
- f. Safe Schools Campus Initiative: Direct the Manager to restore funding to the Safe Schools Campus Initiative. Safe Schools and safe community are high priorities for our residents and need to ensure that our youth have the resources and opportunities needed to be successful.
- g. Special Events staffing costs: The Manager is directed to explore the City's current special events staffing requirements for the Police Department to allow handling of at least 50% of the required security needs per festival to a private security company and implement a fee to recover the costs associated with the Secondary Job unit administration.
- h. Smoking Indoors Enforcement: The Manager is directed to evaluate an increase in fines associated with enforcing smoking indoors at San José bars and restaurants. Also, explore adding new fines for businesses that are reoccurring offenders.
- Emergency response maps: Convert these maps from hard copy maps to GIS-based maps by applying for grant funds for innovative technology programs through the state and federal grant processes.
- m. Deletion of Hazardous Incident Team Fee: Based upon direction early in this memo to alter the structure of the HIT team I recommend that we not proceed with new fee

enactment. This fee has a relatively small impact to the General Fund yet could be difficult to absorb by the businesses that were proposed to pay it.

n. Fire Station 2 Water Tender and Station 6 Hose Wagon retention and implementation of certain recommendations from the City Auditor: This action maintains the current level of service regarding emergency response from both Stations 2 and 6. The City Auditor performed an audit in 1993 and has since made recommendations related to hazardous materials storage permit and inspection fees that should be implemented. Savings realized from implementing the audit recommendations should be used to restore the funding for the Water Tender and the Hose Wagon.

At the April 14, 2004, meeting of the Making Government Work Better Committee, the Auditor submitted an appendix to his 1993 audit that was forwarded to the entire Council for action at its meeting on April 27, 2004. The new information reinforced the Auditor's earlier recommendations and included a workload analysis of the Hazardous Incident Team. He found that redeploying HIT staff to fire stations as cross-trained personnel would result in cost savings and program efficiencies while maintain appropriate service levels for response. Page B-4 of Appendix B, Exhibit 2, displays a matrix of possible HIT Deployment Alternatives.

The implementation of a system similar to Deployment Alternative 3 results in a projected cost savings of \$806,956. However, since a smaller consolidation of HIT activities was already proposed within the Contingency Plan, this proposal will only net a savings of \$396,956. This savings is not adequate to offset keeping the total costs of the Water Tender at Station 2 and the Hose Wagon at Station 6 (\$776,400). Additional alternative funding reductions are proposed elsewhere in this document to cover the remaining funding needed for this shift. Further, refer this reduction proposal to the meet and confer process. If this alternative is not agreed to in meet and confer, the Manager is directed to make reductions within the Fire Department equal or greater to the ongoing savings that would be realized by the Station #6 Hose Wagon and Station #2 Water Tender proposed reductions.

3. Helping All Children Achieve

Even in difficult budget times, we must strive to strengthen the role of city government as an effective community partner to help improve student achievement so that every child in San Jose can have the opportunity to succeed. Appointees are directed to implement the following recommendations:

- a. **High School Education Initiative:** Currently 700 of our high school students drop out of school annually. The Manager is directed to work closely with the Mayor to coordinate with our superintendents to increase high school graduation rates.
- b. The San José Future Teacher Loan Program: Direct the Manager to maintain the quantity of teachers we assist through this program by reducing the amount of funding per

loan rather than reducing the number of teachers, we assist. I further recommend that we direct the Manager to make this overall funding reduction a one-year reduction so that previous funding levels are restored next year.

4. Building Better Transportation

Creating a transportation system that provides safe and efficient access for residents and businesses, enhances our neighborhood streets, and preserves our infrastructure in the face of a serious deficit is a continuing challenge. Appointees are directed to implement the following recommendations:

- a. Streamlining Opportunities: Using the vehicle abatement program as a model, the City should look at all opportunities to streamline and cut costs by departments partnering together to implement the City's goals.
- b. Airport Security: Working with our congressional delegation, the City's Washington lobbyist, and our partner airlines, direct the manager to address the current TSA security and funding issues and prevent adverse effects on our airport's competitiveness and contributions to our economy.
- c. Street Markings and Roadway Maintenance: To recoup the costs to fix street markings and roadway maintenance from utility company construction in roadways, the Manager is directed to submit a fee and charges amendment to charge utilities and contractors to cover the costs of related damage, replacement, and repairs to the extent legally possible.
- d. Post-Vehicular Accident Clean-up: To reduce road hazards and increase the safety of drivers in San José, the Manager is directed to develop a policy to penalize tow companies that do not clean up debris after an accident occurs within the city.
- e. Utility Undergrounding and PG&E: The Manager is directed to explore obtaining legislative remedies to ensure that we can execute future undergrounding projects without waiting for PG&E delays.
- f. Airport Master Plan: Ensure that the Guadalupe Trail is incorporated into the airport's development plan to encourage walking from local businesses near the airport, such as eBay and BEA Systems.

5. Driving a Strong Economy

We continue to make San José the best place in America to do business, work, and live. We have become a statewide leader for creating housing that is affordable for families at all income levels. Despite the current recession, we have a remarkably broad and diverse industrial base. Our

downtown and neighborhoods offer a full range of exciting entertainment, cultural, and retail opportunities. Through prudent planning and strong and effective economic development efforts, the City can have a major impact on economic recovery that will help address our budgetary challenges and create opportunities for our residents and businesses. Appointees are directed to implement the following recommendations:

a. Redevelopment Agency Five-Year Capital Program: The Director shall develop the proposed Agency capital budget to increase the focus on tax increment generating investments and bring recommendations back to the Council in late August or early September. Our goal is to generate additional tax increment revenue to support our programs for strong neighborhoods, affordable housing, and economic development. We should strategically aim at making at least half of our redevelopment investments in programs that will lead to tax increment growth. This would be a reinforcement of previous council action from February of this year:

"Direct the Director to develop the proposed capital budget to increase the focus on tax increment generating investments, ensuring that San José generates additional tax increment dollars to continue programs to support neighborhoods affordable housing and economic development. While difficult to implement immediately, we should have a goal of at least 50% of our expenditures being into efforts that directly generate tax increment growth. We must be strategic with our investments to insure that there will be future tax increment growth to continue our affordable housing, strong neighborhood and job creation programs."

- b. Christmas in the Park: Direct the Director to include \$30,000 in the operating budget to pay for additional costs of a potential early opening of Christmas in the Park. Through discussions with the Christmas in the Park Board and the San Jose Downtown Association, a new collaboration has evolved. This effort will include cooperative marketing efforts and simultaneous opening of Christmas in the Park and Downtown Ice that will enhance the experience of the residents visiting the events and lead to increased activity downtown during the holiday season. This collaboration could result in additional costs for Christmas in the Park due to a longer window of operation than traditionally planned.
- c. Industrial Marketing Campaign: Direct the Director to implement performance measures to monitor and evaluate City contracts associated with the Redevelopment Agency industrial marketing campaigns.
- d. Airport Curfew Enforcement Tools: Direct the Manager to include a camera for curfew enforcement, in the 2004-2005 fiscal year. This would accelerate the purchase by one year.
- e. Citywide Festivals: Direct the Manager to shift the responsibility of festivals to the Economic and Neighborhood Development CSA. This shift makes sense to ensure we focus these efforts to increase economic development and community development opportunities.

Further, direct the Manager to evaluate other city approaches and best practices for charging fees for festival production, specifically including strategies used by San Diego, Los Angeles and San Francisco.

f. Youth Employment Opportunities: Direct the Manager to fund the proposed reduction in the Youth Employment Program, which serves approximately 154 youths year round. This small investment provides invaluable work experience and life skills that are integral to participants' future success. National studies have shown that youth who are employed are least likely to drop out of school, participate in illegal activities, or succumb to teen pregnancy. This proposal would be partially funded through a funding shift from unexpended CAP grants.

Further, direct the Manager to explore using existing partnerships with the Chamber of Commerce and the Silicon Valley Manufacturing Group to continue to provide a youth job fair to increase community awareness of youth employment opportunities.

- g. Office on Aging Senior Employment Resource Center: Direct the Manager to fully fund the Office on Aging Senior Employment Resource Center. The Center serves approximately 500 San Jose seniors with assistance for seeking employment. Older adults have greater difficulty competing for jobs in an ever-shrinking job market in tough economic times. Our older workers can provide invaluable work and life experience to employers and have healthier lives when they can continue to be active in their community.
- h. Incubator Return on Investment: Direct the Manager and Director to renegotiate contracts we have with the operators of our business incubators as opportunities arise to provide greater cost-recovery and potential City income. San Jose's incubator program has successfully launched new companies in software and international business. Currently the operator of these incubators receives a percentage of the income of the companies as they grow and prosper in San Jose. The recently approved operating agreement reached for the new Biotechnology Incubator demonstrates that the City of San Jose and the San Jose Redevelopment Agency can improve on older agreements by increasing the level of cost recovery and income produced by these ventures. This will allow the City to aggressively pursue other companies and economic opportunities to create opportunities for our residents and our businesses.
- i. Arts Groups Challenge Grant: Direct the Manager to provide the opportunity in the coming year to arts and cultural groups with outstanding loans to participate in a loan forgiveness program. Parameters for the program should include:
 - A deadline for matching dollars to be in place
 - History of on-time payments
 - Matching dollars should be at a 1:1 ratio

• The group shall provide a community benefit equal to their loan over ten years. For example, a museum would provide its facility to four San Jose high schools every year for ten years with the opportunity to use their exhibit space; or a theater would provide the space for City functions such as a community meetings or hearings above and beyond any existing free use agreements.

The Silicon Valley Arts Summit is an example of their creative and collaborative spirit to address major issues during this difficult economic period. The City should take the lead from our cultural groups and be creative in addressing our budget issues. We should also find creative ways to support our cultural groups outside of the traditional granting mechanism that has shrunk substantially due to the decline in TOT revenues.

6. Making Government Work Better

We must continue to make San Jose a user-friendly city that delivers high quality services to residents and businesses by striving for maximum efficiencies in how we perform our work. Appointees are directed to implement the following recommendations:

- a. Photocopying Fee Increase: The City Clerk is directed to increase the photocopying fee for public documents to put this program on a cost recovery basis to the extent legally possible.
- b. Title Company Rotation: Direct the Manager and Director to revise the current relationship with title companies to include all qualified San Jose-based title companies on a rotating basis.
- c. Budget Document Clarity: Direct the manager to include in next year's budget current and proposed FTE levels for all programs that are proposed for reduction. This detail would indicate the number of FTE's that are of a similar position in the work unit proposed for reduction.
- d. Voluntary Furlough and special reduced workweek programs: Direct the Manager to work with bargaining units to implement a voluntary employee furlough and a special reduced workweek again this year to provide this cost-saving option to our employees.
- e. Cashiering Consolidation: Direct the Manager to continue to look at other cashiering functions citywide and consolidate these services to reduce costs and improve service, similar to the consolidation for Recycle Plus cashiering. This consolidation can continue to provide maximum efficiencies when we move into the new civic center.
- f. Citywide Service Contracts: Direct the Manager and the Director to examine other citywide service contracts (such as cellular phone services) to identify additional cost savings in all departments.

- g. Workers Compensation: Preliminary cost analysis found \$500,000 in cost savings from worker's compensation reforms. These savings should be directed to offset funding restorations within this document.
- h. Utility Master Plan: Direct the Manager to partner with utility companies to develop a master plan for future utility repairs and coordinate these plans with the City's Capital Improvement Program to identify opportunities to reduce project costs, minimize public disruption, achieve greater efficiencies and reduce wear and tear on infrastructure.
- i. E-government Reserve: Direct the Manager to reduce the e-government reserve by \$500,000 to help offset the funding restorations recommended in this document.
- j. Mayor and Council Office Budget Reductions: I recommend, per previous recommendations and Council approval, that the budgets of the Mayor and Council offices be reduced by 12.2%, which is the same proportion as the average reduction by non-Public Safety departments.
- k. Pre-approval for General Fund State Contingency Plan Budget Reductions. Once the state budget is passed, the Manager is authorized to move forward to balance the budget by using the revised matrix (Attachment I) of ranked reduction items under the Council-approved State Budget Impact Contingency Plan. The Manager is authorized to move forward with the recommended reductions up to a total of \$13.5 million and bring to the Council any necessary implementation ordinances necessary. If contingency budget balancing requires more resources, the Manager is directed to return to Council for subsequent approvals.
- Public Art Flexibility Review: Direct the Manager and Attorney to return to the City Council, in 60 days with an analysis of our Public Art policy that identifies alternative ways the 2% public art funds can be used and evaluates the possibility of a cap on public art per CIP project.
- m. Capital Project Expediting & Cost Savings: Direct the Manager to implement recommendations in MBA #48 investigate and implement changes to capital project management to expedite project delivery and reduce costs both for projects and ongoing operations. By using an overhead cost model, DPW would be comparable with the SJRA delivery model.

Increasing the minor project limit could shorten delivery time for smaller and mostly community-driven neighborhood-focused projects (e.g., tot lots, dog parks) that have high community priority and it could reduce public frustration from delays. We should be consistent with our benchmark cities, and the delegated bid process must comply with City Charter public bid requirements, retain accountability to Council through reports from the Manager, and gain efficiencies that could shave months off project timelines.

Finally, the process for staff to get bid memos before Council for consideration has taken up to two months. The process should be examined for potential efficiencies to enable

projects to move to approvals more quickly and reduce the burden on our limited staff resources. These changes should result in lower costs, faster project delivery, and higher public satisfaction.

- n. Real Estate Function Consolidation: Direct the Manager to examine the re-consolidation of City real estate functions into one department to achieve ongoing cost savings through elimination of duplication between departments. The current split of City real estate functions into acquisition and disposition under DPW and contractual/rental responsibilities under GSD has created redundancy in staff, expertise, and support requirements
- o. IT Field Support: Direct the Manager to explore moving citywide non-Public Safety IT field support and operations to a project office/internal outsourcing model. Through centralized staffing, technology experts could be paired with subject matter experts in the client department to achieve the most efficient delivery of IT services. This model, proven viable by major Silicon Valley technology firms, yields significant cost savings, prevents costly duplication, and maintains client service delivery. Additionally, ITD offers greater opportunity for staff to grow and advance professionally than the narrow classification available to operating departments.
- p. Employee Flu Shot Program: Direct the Manager to explore working with local health organizations to offer flu shots to City employees at their worksites for a small fee to the employee. As an employer of choice, we must continue to find ways to protect the health of our employees that enables them to serve the public well. Our continuing fiscal situation prevents us from offering free flu shots to our employees, but the alternative of making it more convenient for them to get shots help ensure better health.
- q. CBO and Facility Management Consolidation: Direct the Manager to restore funding for one FTE and consider shifting other funding and positions to the Manager's Office or the Office of Economic Development to provide comprehensive oversight of the City's many agreements with community-based organizations for public services and operations of City facilities (such as the Repertory Theater, Muni Stadium, banquet center, golf courses, and museums). We need consistent and qualified oversight to protect our long-term and short-term goals, ensure that contractual requirements are fulfilled, and seek opportunities for efficiencies and innovations.
- r. General Plan and Business Plan Alignment: Direct the Manager to begin an effort to align the service level goals contained in the San Jose 2020 General Plan with the performance measures and business plans contained in the FY04/05 Operating Budget. The General Plan sets forth the vision for our community's growth and development including service level goals to support a high quality of life for all San Jose residents and businesses. It is critical that the General Plan and the budget document reflect the same service delivery approaches to achieve our long-term goals and achieve our vision. Appropriate changes to the General Plan should be brought forward for City Council consideration beginning in early 2005.

- s. Two-year General Fund Budget Plan: Direct the Manager this coming year to prepare a two-year General Fund budget plan that contains strategies and business plans for continuing to provide excellent city services and facilities in an era of constrained resources. The two-year budget should clearly link the City's adopted Economic Development Strategy, City Service Area business plans, and General Plan goals in a comprehensive and integrated approach.
- t. Election Commission Staffing: The work of the Elections Commission is critical to maintain good public oversight and accountability on a variety of issues. As the work of the Elections Commission continues to evolve, the need for investigative services is clear. It may be more cost effective to shift to using full time non-lawyer city staff to provide these services or it may be more efficient to hire outside investigators who are not lawyers. Both the City Attorney and the District Attorney make use of non-lawyers to handle investigations. Direct the Attorney and Clerk to analyze the use of City staff compared to hiring outside investigations services as well as hiring investigators who are not lawyers. If outside investigators are recommended then staff is directed to proceed with a cost-based request for proposals to secure potential investigative services for the Elections Commission that does not require investigators to be lawyers.
- u. City Clerk Automation Funding: Direct the Manager to provide \$85,000 to fund an immediate implementation of an aggressive office automation and electronic filing system. The Clerk has the need for automation, training, software and equipment. Providing this funding will enable us to quickly streamline the agenda and minute processes, reduce a paper intensive system, provide cross training and begin electronic filing of important documents like campaign finance statements.
- v. Call Center: Direct the Manager to:
 - Measure how many staff people it takes to resolve customers' problems.
 - Conduct a customer satisfaction survey of Call Center users.
 - At contract expiration, renegotiate contract with after hours call service to include direct transfer of calls received to the appropriate parties at no extra cost to City.
 - Have the Call Center develop customer service standards for all City Departments.
- w. General Services Purchasing, Replacement, and Loans of City Vehicles: I recommend a number of actions to achieve significant savings in our fleet management and requisitions.
 - 1. Direct the Manager to:
 - a. Continue the freeze on purchasing any new general fleet vehicles without City Council approval for another year.
 - b. Remove approximately 300 transport vehicles from the City fleet to realize \$1.7 million in savings for FY 2004-2005 to achieve an estimated \$6 million in total savings over the next ten years, and implement the mileage reimbursement policy

approved in 1985 for those employees who currently utilize a City vehicle less than 9000 miles per year or light trucks under 11,000 miles per year subject to exceptions that are in current collective bargaining agreements.

- c. In partnership with the Auditor, evaluate the FY 2004-2005 reduction of personnel and vehicle assignments to make the necessary reductions to the City fleet.
- d. All fleet auction revenues should go directly to the General Fund except where legal restrictions exist.
- e. Realign replacement cycles for unmarked vehicles and patrol motorcycles to save an additional \$809,000 in the general fund.
- f. Implement the savings proposal related to Fire Department underutilized vehicles.
- g. Implement new controls over the mileage reimbursement program to help ensure that mileage reimbursement forms are properly completed and contain accurate information, and to ensure that employees are not exceeding 750 miles per month.
- h. Direct the Auditor to audit the Police Department's Marked Patrol Vehicle contingency to recommend the most cost-effective use of these vehicles.
- Direct the Manager to implement improved controls over the mileage reimbursement program.
- j. Implement and take necessary steps to enforce City Policy Manual Section 142, to ensure adequate standards for assignment of City vehicles and the City's mileage reimbursement program and steps to track and monitor 24-hour take-home vehicle use.

2. Direct the Auditor to:

- a. Work with the Manager to further define, exceptions to the current mileage reimbursement standards.
- b. Conduct an audit of the City's fleet of specialized/special purpose vehicles, SUVs, and passenger vans to determine the most cost-effective use of these vehicles. We need to make sure we are buying the right vehicles for the right jobs.
- Audit the City's vehicle maintenance procedures to recommend additional cost saving measures.

7. Reduction/Redeployment/Rebudget Proposals

I recommend the following rebudgets subject to final verification by the City Clerk's Office for Mayor and Council Offices. I further recommend that we place a cap on rebudgets of 50% of the base budget which would cap council rebudget at \$102,583 and cap the Mayor rebudget at \$557,330.

District 1	\$102,583
District 2	\$42,116
District 3	\$324
District 4	\$14,870
District 5	\$102,583
District 6	\$42,640
District 7	\$78,510
District 8	\$16,900
District 9	\$75,904
District 10	\$102,583
Mayor	\$226,649
Council General	\$334,784

8. Revised and New Performance Measures

Economic and Neighborhood Development CSA:

- 1. Direct the Manager to revise the performance measurement from "fire inspections initiated" to the number of non-state-mandated fire inspections completed and number of state-mandated fire inspections completed.
- 2. Direct the Manager to measure success for the Economic and Neighborhood Development CSA by adding measures related to the housing/jobs balance.

Transportation Services CSA:

- Direct the Manager to highlight performance measures regarding saving lives and preventing injuries.
- 2. Direct the Manager to expand the "Street Smarts" program performance measurements to include a measure related to injuries to children in traffic accidents near schools.

Public Safety CSA:

- Direct the Manager to revise the following Public Safety CSA Business plan performance measures:
 - a. Add five-year trend data
 - b. Include ALS/STAR investments and outcome trends
 - c. Report civilian fire deaths and injuries
 - d. Expand fire prevention measurements to reflect all fires, not just arson fires

9. Reports Required

- a. Research the feasibility of using homeland security grants to fund hazardous material inspections.
- b. Following the full implementation of the Police Department Patrol Staffing software, report to the City Council prior to the FY 2005-2006 budget cycle with opportunities for revisions to the staffing model.
- c. The Manager is directed to report to the City Council by August 2004 with an implementation plan for changing the initial fee assessment methodology for all building and fire fees to a time-based system.

CONCLUSION

We should be proud of our many accomplishments over the past few years to make San José a great place to live, work, and play, and a community that our residents are proud to call home. Despite the current economic challenges facing the region, state, and nation, I am confident this budget will continue our efforts to achieve our community's goals by preserving, expanding, and creating essential services for the people of San José.

- I am particularly proud of our efforts in recent years to strengthen our neighborhoods. This includes wiping out graffiti, investing in parks and libraries, repairing sidewalks and installing streetlights, and successfully engaging grassroots partnerships to define community priorities.
- We have focused on helping our children achieve success in school by expanding homework centers, attracting and retaining teachers with housing, keeping our schools safe, supporting free health insurance to children, and creating opportunities for high quality early education.
- We are making our streets and neighborhoods safer for pedestrians and cyclists, reducing traffic congestion, and developing transit solutions and smart growth to meet the needs of residents and businesses now and in the future.

- We are helping to build the foundations for future prosperity and economic opportunity for local businesses and our families.
- We are keeping San José the safest big city in America with well-trained and equipped police, fire, and emergency services.

Although the current economic and budget situation is very serious, I am confident that San Jose will continue to rise to the challenge. This budget outlines recommended priorities for continuing to make smart, strategic financial decisions during an extremely challenging economic period in order to protect vital City services, manage all our resources more effectively and efficiently, and protect the quality of life of residents in our community and in their neighborhoods.

COORDINATION

This memo has been coordinated with the City Manager, the Redevelopment Agency Executive Director, the City Auditor and the City Attorney.

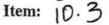
Attachment I

State Budget Reduction Contingency Plan

Recommended Ranking	Title	Amount	Cumulative
1	Additional savings in Mayor's message	\$2,000,000	\$2,000,000
2	Emergency Response Fee	\$9,500,000	\$11,500,000
3	Fleet Management Program	\$127,000	\$11,627,000
4	Fire Training	\$100,000	\$11,727,000
5	Street light Supplies	\$35,000	\$11,762,000
6	Facilities Management Program	\$254,000	\$12,016,000
7	Health and Safety Program Staffing	\$51,000	\$12,067,000
8	Street Light Operations	\$90,000	\$12,157,000
9	Financial Reporting Staffing	\$132,000	\$12,289,000
10	Transit Mall Cleaning and Services	\$90,000	\$12,379,000
11	Community Based Organization Funding	\$74,000	\$12,453,000
12	Technology Support	\$277,000	\$12,730,000
13	Long Range Planning	\$104,000	\$12,834,000
14	HIT consolidation	\$444,000	\$13,278,000
15	Police Administrative Sworn Staffing	\$262,000	\$13,540,000
16	Fire Department Support Services Consolidation	\$105,000	\$13,645,000
17	Public Safety Communications staffing	\$824,000	\$14,469,000
18	Senior Special Events Programs	\$66,000	\$14,535,000
19	Mayor Council and Council Appointees	\$477,000	\$15,012,000
20	Police and Fire Recruit Academies	\$782,000	\$15,794,000
21	Regional Parks Reduced Operations	\$227,000	\$16,021,000
22	Safe Schools Campus Initiative Efficiencies	\$100,000	\$16,121,000
23	Police Traffic Enforcement Sworn Staffing	\$987,000	\$17,108,000
24	Future Teacher Loan program	\$100,000	\$17,208,000
25	Anti Graffiti Program	\$93,000	\$17,303,000
26	Fire Emergency Response Engine Company	\$1,178,000	\$18,479,000
. 27	School Crossing Guard 50% reduction	\$600,000	\$19,079,000
28	Library Branch Hours Elimination	\$1,295,000	\$20,374,000
29	Domestic Violence After Care Services	\$53,000	\$20,427,000
30	Clean Slate and Striving Toward Achievement	\$483,000	\$20,910,000
31	School Crossing Guard elimination	\$716,000	\$21,626,000
32	Police Investigations Sworn Staffing	\$1,506,000	\$23,132,000
33	Police Special Operations Sworn Staffing	\$3,554,000	\$26,686,000
34	Police Team Sworn Staffing	\$4,278,000	\$30,964,000

SUPPLEMENTAL

Council Agenda: June 15, 2004





Memorandum

TO: City Council

FROM: Mayor Ron Gonzales

SUBJECT: Mayor's June Budget

Message Addendum

DATE: June 14, 2004

Approved

Date

4/14/04

RECOMMENDATION

I recommend that the City Council:

- 1. Include in budget approvals the following MBA's:
 - a. MBA #13, Museum of Art Expansion International Center for Art and Technology
 - b. MBA #42, Tobacco Administrative Fines
- 2. Related to MBA #47 the Healthy Neighborhoods Venture Fund (HNVF) we:
 - a. Provide an additional \$300,000 from the HNVF to the Children's Health Initiative to bring funding up to last year's level of \$2 million.
 - b. Refer any unallocated funds other than the Interest Earnings Reserve (\$453,459) and the Fund Balance Reserve (\$500,000) for consideration of the entire HNVF Advisory Committee.

BACKGROUND

MBA's #13 and #42 were inadvertently left off the Mayor's Budget Message document distributed last week. This supplemental memorandum recommends including these MBA's for the Council's approval.

There are funds within the HNVF fund, which were unintentionally unallocated by the HNVF Advisory Committee in their recommendation to the Council, as set forth in Manager's Budget Addendum #47. It appears that between \$400,000 and \$500,000 are available beyond intentionally dedicated fund reserves. After discussion with Vice Mayor Dando and Councilmembers Chavez and Yeager (councilmembers who serve on the HNVF Advisory

Council Agenda: June 15, 2004 Item:

Committee), I recommend that these funds be allocated to bring CHI up to last year's funding level and refer the remainder to the HNVF Advisory Committee for consideration.

COORDINATION

This memo has been coordinated with the City Manager's Office.

CITY OF SAN JOSE

COUNCIL AGENDA: 06-22-04

ITEM:

3.8(d)

Memorandum

TO: HONORABLE MAYOR AND

CITY COUNCIL

FROM: Larry D. Lisenbee

SUBJECT: SEE BELOW

DATE: June 1, 2004

Approved

Kay Winer

Date

6/1/04

Council District:

City-wide

SUBJECT:

ADOPTION OF A RESOLUTION IN COMPLIANCE WITH ARTICLE XIIIB OF THE CONSTITUTION OF THE STATE OF CALIFORNIA AND AS MODIFIED BY PROPOSITION 111 AND SB 88 ELECTING THE POPULATION AND INFLATION FACTORS AND ESTABLISHING THE

FISCAL YEAR 2004-2005 APPROPRIATION LIMIT

RECOMMENDATION

It is recommended that the City Council adopt a resolution taking the following actions with respect to the City's 2004-2005 "Gann Limit":

- 1. Elect the per capita income index as the inflation factor for 2004-2005 on a provisional basis, with the option to adjust the Limit, if necessary, once the assessment data is available from the County Assessor; and
- 2. Elect the City population growth index as the population factor for 2004-2005; and
- 3. Establish the Fiscal Year 2004-2005 Appropriation Limit at \$612,030,054 in compliance with Article XIIIB of the State Constitution.

BACKGROUND

California voters approved an initiative on November 6, 1979 that added Article XIIIB to the State Constitution. The provisions of this article place limits on the amount of revenue that can be appropriated by all entities of government. The Appropriation Limit is based on actual appropriations during the 1978-1979 fiscal year, as increased each year using specified population and inflationary growth factors.

HONORABLE MAYOR AND CITY COUNCIL

06-01-04

Subject: Adoption of a Resolution in Compliance with Article XIIIB of the Constitution of the State of California and as Modified by Proposition 111 and SB 88 Electing the Population and Inflation Factors and Establishing the Fiscal Year 2004-2005 Appropriation Limit

Page 2

BACKGROUND (Cont'd.)

The original legislation implementing the provisions of Article XIIIB became effective January 1, 1981. In accordance with that legislation, the governing body of each government jurisdiction must, by resolution, establish its annual Appropriation Limit for the coming year (prior to July 1) at a regularly scheduled meeting or noticed special meeting.

The original Article XIIIB (Proposition 4) and its implementing legislation Chapter 1205/80 were modified by Proposition 111 and SB 88 (Chapter 60/90). Significant changes imposed by Proposition 111 include the following:

- The provision of a choice in methodologies for determining the annual inflation factor between (1) growth in California per capita income, or (2) growth in non-residential assessed valuation due to new construction with the City.
- The provision of a choice in methodologies for determining the annual population growth factor between (1) City population growth, or (2) County population growth.
- Regulations allowing the exclusion of "qualified capital outlay" expenditures from the calculation of the Limit.
- Provision of a process for avoiding tax refunds if a city falls sufficiently below the Limit in
 the next fiscal year. The revised language provides two years, beyond the second year, to
 refund any remaining excess during which jurisdictions can seek to obtain a successful
 override vote.

ANALYSIS

The State Constitution (Article XIIIB) specifies that the Appropriation Limit restricts the amount of revenue that can be appropriated. Not all revenues are restricted by the Limit, only those that are referred to as "proceeds of taxes". The majority of the major General Fund revenue sources (Sales Tax, Property Tax, Utility Tax, State In-lieu Subventions) are classified as proceeds of taxes, and are, therefore, subject to the Limit. Special fund revenue sources subject to the Limit generally include local construction tax revenues. Each revenue source is reviewed annually for classification as subject to, or exempt from, this Limit.

In addition, proceeds of taxes may be spent on several types of appropriations that do not count against the Limit. The law allows a city to spend tax proceeds on voter-approved debt, costs of complying with court orders and federal mandates, with certain restrictions, and expenditures for qualified capital outlay. Appropriations for these excludable categories do not count against the Limit.

HONORABLE MAYOR AND CITY COUNCIL

06-01-04

Subject: Adoption of a Resolution in Compliance with Article XIIIB of the Constitution of the State of California and as Modified by Proposition 111 and SB 88 Electing the Population and Inflation

Factors and Establishing the Fiscal Year 2004-2005 Appropriation Limit

Page 3

ANALYSIS (Cont'd.)

Appropriation Limit Adjustment Factors

As a result of Proposition 111, the City is required to choose between two annual inflation factors and two population growth factors.

The choice offered for the annual inflation factor is the greater of (1) the growth in California per capita income or (2) the growth in non-residential assessed valuation due to new construction within the City. The data necessary to calculate the increase in non-residential assessed valuation is not currently available from the County Assessor. Until such information is available, it is recommended that the City approve the 2004-2005 Appropriation Limit on a provisional basis using the inflation factor of California per capita income.

The choice offered for the annual population growth factor is the greater of the growth in City or County population. The California State Department of Finance provided the 2004 population growth rates for both the City of San Jose and County of Santa Clara at 0.73% and 0.72%, respectively. Based on these growth rates, it is recommended that the City Council approve the 2004-2005 Appropriation Limit using the City's population growth factor.

Calculation of the 2004-2005 Appropriation Limit

The application of the annual growth factors to the 2003-2004 Limit result in a 2004-2005 Limit of \$612,030,054:

2003-2004 Appropriation Limit	\$ 588,298,425	
Inflation factor	X	1.0328
Population factor	X	1.0073
2004-2005 Appropriation Limit	\$ 612,030,054	

Based on these calculations, the City Attorney, as required by the State Constitution, has prepared a resolution for City Council consideration that would establish the 2004-2005 Appropriation Limit for the City of San Jose at \$612,030,054.

Appropriations Subject to the Limit

The amounts in the City's 2004-2005 Proposed Budget subject to the Limit (net proceeds of taxes) total \$422,662,283. This amount is significantly below the required Limit:

2004-2005 Appropriation Limit	\$ 612,030,054
2004-2005 Appropriations Subject to Limit	(422,662,283)
Amount Under Limit	\$ 189,367,771

HONORABLE MAYOR AND CITY COUNCIL

06-01-04

Subject: Adoption of a Resolution in Compliance with Article XIIIB of the Constitution of the State of

California and as Modified by Proposition 111 and SB 88 Electing the Population and Inflation

Factors and Establishing the Fiscal Year 2004-2005 Appropriation Limit

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PUBLIC OUTREACH

Not applicable.

COORDINATION

This memorandum was coordinated with the City Attorney's Office.

CEQA

Not a project.

ARRY D. LISENBEE

Budget Director